Financial Statements And Schedules

West Tennessee Healthcare and Related Affiliates
Years Ended June 30, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

West Tennessee Healthcare and Related Affiliates

Financial Statements and Schedules

Years Ended June 30, 2013 and 2012

Contents

Ernst & Young LLP
One Nashville Place
Suite 1400
150 Fourth Avenue North
Nashville, TN 37219

Tel: +1 615 252 2000
Fax: +1 615 242 9128
ey.com

Report of Independent Auditors

The Board of Trustees
West Tennessee Healthcare and Related Affiliates

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of West Tennessee Healthcare and Related Affiliates (the Company), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Company as of June 30, 2013 and 2012, and the respective changes in financial position for the years then ended.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 4 through 11 and the required pension and post employment benefits disclosure information on pages 58 through 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The deductions from gross patient service revenues on pages 61 through 62 are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

The accompanying schedule of expenditures of federal awards and state financial assistance as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and on-Profit Organizations*, and *Non-Profit Organizations*, and by Chapter 10.650, *Rules of the Auditor General,* presented on pages 63 through 65 is presented for purposes of additional analysis and is not required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated October 30, 2013 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Ernst + Young LLP

October 30, 2013, except for the
schedule of expenditures of federal awards
and state financial assistance, for which the
date is May 12, 2014

West Tennessee Healthcare and Related Affiliates

Management's Discussion and Analysis

Years Ended June 30, 2013 and 2012

This section of the financial statements of West Tennessee Healthcare and Related Affiliates (the Company) presents management's analysis of the Company's financial performance during the fiscal years ended June 30, 2013 and June 30, 2012.

Financial Highlights

2013

- The Company's results from operations, including interest expense, met budgeted expectations in 2013 with an operating margin of 2.2%.

- Total operating revenues were 3% above the prior year, an increase of approximately $20 million. The increase was due to several factors, most notably an increase in cardiology and Rehabilitation Center volumes for the flagship hospital and the addition of some new services during the year.

- Total operating expenses were up 2%, with a 1% increase in salaries and benefits expense resulting from routine staffing and raises and a 9% increase in supply costs driven primarily by the increase in cardiology volume.

- The Company's nonoperating revenue was up significantly with improved market conditions for the Company's investments.

2012

- The Company's results from operations, including interest expense, fell below budgeted expectations in 2012 with an operating margin of 0.9%.

- Total operating revenues were 0.4% below the prior year, a decrease of approximately $2 million. A decline in surgical and cardiology cases drove net patient service revenues down by 1.5%. The decline in patient revenue was offset by 17.7% increase in other operating revenue due to incentive payments for the meaningful use of electronic health records.

Financial Highlights (continued)

- Total operating expenses were up nearly 1%, led by employee salaries and benefits costs, which increased by 3% due to increased staffing and employee raises awarded during the year as well as increased utilization of the Company's medical benefit plan. In addition, administrative and other expenses were up 5.5%. These cost increases were offset by a decline in supply costs, which were down 7.5% with the decline in volumes.

- The Company's nonoperating revenue was down significantly due to deteriorating market conditions for the Company's investments.

Overview of the Financial Statements

The financial statements consist of two parts: management's discussion and analysis and the basic financial statements. The basic financial statements also include notes and required supplementary information that explain in more detail some of the information in the financial statements.

Required Basic Financial Statements

The Company reports financial information about the Company using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The statements of net position include all of the Company's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Company creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. These statements also provide the basis for computing rate of return, evaluating the capital structure of the Company and assessing the liquidity and financial flexibility of the Company.

All of the current year's revenues and expenses are accounted for in the statements of revenues and expenses and changes in net position. These statements measure the performance of the Company's operations over the past year and can be used to determine whether the Company has successfully recovered all of its costs through the services provided, as well as its profitability and credit worthiness.

Required Basic Financial Statements (continued)

The final required statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Company's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, non-capital financing and financing activities, and provides information as to where cash came from, what cash was used for, and what the change in the cash balance was during the reporting period.

Financial Analysis

Our analysis of the financial statements of the Company begins below. One of the most important questions asked about the Company's finances is "Is the Company as a whole better off or worse off as a result of the year's activities?" The statements of net position and the statements of revenues, expenses, and changes in net position report information about the Company's activities in a way that will help answer this question. These statements report the net position of the Company and changes in them. You can think of the Company's net position – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Company's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in interest rates, economic conditions, regulations and new or changed government legislation.

Required Basic Financial Statements (continued)

Table A-1

Condensed Statements of Net Position (in millions of dollars)

	June 30			Dollar Increase (Decrease)	Percentage Increase (Decrease)	Dollar Increase (Decrease)	Percentage Increase (Decrease)
	2013	**2012**	**2011**	**2012-2013**	**2012-2013**	**2011-2012**	**2011-2012**
Current assets	**$ 149.3**	$ 140.0	$ 141.5	$ 9.3	7%	$ (1.5)	(1)%
Capital assets, net	**391.8**	386.6	403.5	5.2	1	(16.9)	(4)
Other long-term assets	**349.5**	334.5	314.8	15.0	4	19.7	6
Total assets	**890.6**	861.1	859.8	29.5	3%	1.3	–%
Current liabilities	**72.8**	67.9	68.2	4.9	7%	(0.3)	–
Long-term liabilities	**283.5**	287.5	291.3	(4.0)	(1)	(3.8)	(1)
Total liabilities	**356.3**	355.4	359.5	0.9	0.25%	(4.1)	(1)%
Unrestricted	**383.1**	368.2	344.3	14.9	4%	23.9	7%
Invested in capital assets, net of related financing	**124.3**	115.5	128.9	8.8	8	(13.4)	(10)
Restricted	**26.9**	22.0	27.1	4.9	2	(5.1)	(19)
Total net position	**534.3**	505.7	500.3	28.6	6%	5.4	1%
Total liabilities and net position	**$ 890.6**	$ 861.1	$ 859.8	$ 29.5	3%	$ 1.3	–%

As indicated in Table A-1, net position increased from fiscal 2012 by $28.6 million or 6% with the Company's financial performance in fiscal year 2013.

1. Total assets increased by $29.5 million or 3% with significant growth in the value of the investment portfolio and growth in accounts receivable arising from volume and revenue growth.

2. Total liabilities remained relatively flat, increasing by $0.9 million or 0.25% with routine activity.

Required Basic Financial Statements (continued)

As indicated in Table A-1, net position increased from fiscal 2011 by $5.4 million or 1% with the Company's financial performance in fiscal year 2012.

1. Total assets remained relatively flat, increasing by $1.3 million or 0%.
2. Total liabilities decreased by $4.1 million or 1% due to the routine decrease in the balance of outstanding debt.

Table A-2

Condensed Statements of Revenues, Expenses, and Changes in Net Position (in millions of dollars)

	Year Ended June 30			Dollar Increase (Decrease)	Percentage Increase (Decrease)	Dollar Increase (Decrease)	Percentage Increase (Decrease)
	2013	**2012**	**2011**	**2012-2013**	**2012-2013**	**2011-2012**	**2011-2012**
Net patient service revenues	**$ 569.1**	$ 553.0	$ 561.4	$ 16.1	3%	$ (8.4)	(1)%
Other operating revenues	**44.9**	40.9	34.7	4.0	10	6.2	18
Total operating revenues	**614.0**	593.9	596.1	20.1	3%	(2.2)	(0.4)%
Salaries and benefits	**319.7**	317.7	307.0	2.0	1%	10.7	3
Supply expenses	**126.7**	116.6	126.1	10.1	9	(9.5)	(8)
Other expenses	**136.3**	136.4	132.7	(0.1)	0	3.7	3
Total expenses	**582.7**	570.7	565.8	12.0	2%	4.9	1
Operating income	**31.3**	23.2	30.3	8.1	35%	(7.1)	(23)
Net nonoperating revenues and expenses	**(0.9)**	(14.9)	11.0	14.0	(94)%	(25.9)	(235)
Change in net position	**30.4**	8.3	41.3	22.1	266%	33.0)	(80)
Beginning net position	**505.7**	500.3	459.9	5.4	1	40.4	9
Less contributions	**(1.8)**	(2.9)	(0.9)	1.1	(38)	(2.0)	222
Ending net position	**$ 534.3**	$ 505.7	$ 500.3	$ 28.6	6%	$ 5.4	1%

While the statements of net position shows the change in financial position or net position, the statements of revenues and expenses and changes in net position, as indicated above, provide answers as to the nature and source of these changes (i.e., the financial result of current year operations).

Required Basic Financial Statements (continued)

Operating revenues increased by $20.1 million or 3% from 2012 to 2013. The increase was driven primarily by improved cardiology volumes.

1. Inpatient discharges remained relatively flat with a 0.3% decrease. Although inpatient volumes were flat, patient revenue improved with the increase in cardiology cases. Surgical volumes were flat compared to the prior year.

2. The Company earned $8.1 million in incentive payments for the meaningful use of electronic health records.

Operating revenues decreased by $2.2 million or 0.4% from 2011 to 2012. The decrease was driven primarily by declining cardiology and surgical volumes, offset by non-recurring income.

1. Inpatient discharges were up 2%. However, although inpatient volumes were up, patient revenue declined with the decline in surgical and cardiology cases. Surgical volumes were down 1% compared to the prior year.

2. The Company received $7.4 million in incentive payments for the meaningful use of electronic health records.

Operating expense increased by $12 million or 2% when comparing 2013 to 2012.

1. Total salaries and benefits expense increased by $2 million or 1% due to several factors, most notably routine employee rate adjustments awarded in September 2012.

2. Total supply expenses for the Company increased by $10.1 million or 9% due to improving volumes particularly for cardiology services, where supply costs per case are generally higher. In addition, drug costs increased with the temporary loss of 340b pricing during the year due to a change in enrollment status.

3. Other expenses decreased by $0.1 million or 0.0% with changes to co-management arrangements, enhanced case management services and routine inflation of equipment and software maintenance costs.

Operating expense increased by $4.9 million or 1% when comparing 2012 to 2011.

1. Total salaries and benefits expense increased by $10.7 million or 3% due to several factors. Routine employee rate adjustments were given in September 2011, while costs

Required Basic Financial Statements (continued)

for the employee's health plan increased with increased utilization and cost of employee medical claims. In addition, the 403b match was reinstated in July 2011.

2. Total supply expenses for the Company decreased by $9.5 million or 8% due to declining volumes particularly for surgery and cardiology services, where supply costs per case are generally higher.

3. Other expenses increased by $3.7 million or 3% due to changes to co-management arrangements, enhanced case management services and routine inflation of equipment and software maintenance costs.

Capital Assets and Long-Term Debt

Capital Assets

As of June 30, 2013, the Company had $391.8 million invested in a variety of capital assets, as reflected in Table A-3, which represents a net increase (additions, disposals and depreciation) of $5.2 million or 1% from the end of last year.

Table A-3

Capital Assets (in millions of dollars)

	June 30	
	2013	**2012**
Land and land improvements	**$ 46.9**	$ 46.6
Buildings	**287.3**	285.6
Equipment	**576.9**	554.8
Construction in progress	**30.4**	3.8
Total capital assets	**941.5**	890.8
Accumulated depreciation	**(549.7)**	(504.2)
Capital assets, net	**$ 391.8**	$ 386.6

Long-Term Debt

As of June 30, 2013, the Company had $283.5 million in outstanding long-term debt and as of June 30, 2012, the Company had $287.5 million in outstanding long-term debt. This represents a net decrease of $4 million over the prior fiscal year.

Long-Term Debt (continued)

For more detailed information regarding the Company's capital assets and long-term debt, please refer to the notes to the financial statements.

Future Outlook

The Board of Trustees and management continue to have a positive outlook for the Company. The Company continues its commitment to high quality care and an exceptional patient experience, while pursuing business strategies that will strengthen its financial position and ensure its ability to continue to fulfill its mission. The Company continues to develop and evaluate alignment and business strategies to accomplish these objectives.

Of particular note in the short-term:

- In January of 2014, the Company will complete a realignment of services in Gibson County, which is adjacent to the county of the flagship hospital. The purpose of the realignment is to replace under-utilized facilities and services to more closely align with what the community wants and needs locally. In summary, The Company will transition from having three hospitals in the County to having one Hospital, a comprehensive outpatient medical center, and an emergency department satellite location of the flagship hospital.

- In the Winter of 2013, the Company will open the Kirkland Cancer Center, relocating medical and radiation oncology services to a new facility adjacent to the flagship hospital in Jackson. The new facility will provide a comprehensive set of services for cancer patients in a single site tailored to their needs.

- In the Fall of 2013, the Company joined with other like-minded providers across the state of Tennessee to form the Vanderbilt Health Affiliated Network, a clinically integrated network with the goal of improving quality of care for the communities served by its members. The network will provide an infrastructure for accountable care initiatives and extend the Company's existing population health initiatives.

Requests for Information

This financial report is designed to provide a general overview of the Company's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Company.

Roster of Governance and Management Officials

Governance Officials – Board of Trustees

Name	Title	Principal Occupation
Phil Bryant	Chairman	Financial Services
Greg Milan	Vice-Chairman	Insurance Services
Vicki Burch	Secretary	President, West Tennessee Business College
Curtis Mansfield		President, First Bank
Danny Wheeler		Retired, Jackson Energy Authority

Management Officials

Bobby Arnold	Chief Executive Officer
James Ross	Chief Operating Officer, Vice-President
Jeff Blankenship	Chief Financial Officer, Vice-President
Currie Higgs	General Counsel, Vice-President
Amy Griffin	Compliance Officer, Vice-President
Dr. David Roberts	Chief Medical Officer, Vice-President
Jeff Frieling	Chief Information Officer, Vice-President
Wendie Carlson	Vice-President of Human Resources
Dr. Lisa Piercey	Vice-President of Physician Services
Tina Prescott	Chief Nursing Officer, Vice-President
Catherine Kwasigroh	Vice-President of Hospital Services
Karen Utley	Vice-President of Hospital Services
Deann Montchal	Vice-President of Hospital Services

West Tennessee Healthcare and Related Affiliates

Statements of Net Position

	June 30 2013	June 30 2012
Assets		
Current assets:		
Cash and cash equivalents	**$ 31,941,021**	$ 36,988,257
Accounts receivable:		
Patient accounts receivable, less allowances for doubtful accounts and contractual adjustments of approximately $165,224,823 and $153,506,000	**87,965,287**	80,927,852
Other	**11,185,442**	7,304,235
Total accounts receivable	**99,150,729**	88,232,087
Inventories	**5,977,317**	5,840,953
Prepaid expenses	**7,017,543**	8,249,049
Restricted assets – current portion	**5,190,102**	685,584
Total current assets	**149,276,712**	139,995,930
Restricted assets:		
Funded depreciation – buildings	**59,770,124**	57,184,551
Funded depreciation – equipment	**32,136,970**	30,746,768
Debt service reserve fund – restricted	**21,700,684**	21,374,418
Project building fund	**77,372,432**	73,394,787
Operating reserve fund	**107,575,318**	100,925,440
Contingency fund	**8,420,128**	7,889,929
High technology fund	**9,997,114**	9,367,614
	316,972,770	300,883,507
Other assets:		
Unamortized bond issue costs	**1,983,149**	2,096,574
Other	**30,533,321**	31,554,592
	32,516,470	33,651,166
Capital assets:		
Land and land improvements	**46,884,820**	46,576,018
Buildings	**287,318,752**	285,630,836
Fixed equipment	**194,674,706**	194,388,623
Moveable equipment	**382,290,274**	360,374,025
Construction in progress	**30,390,343**	3,808,513
	941,558,895	890,778,015
Accumulated depreciation	**(549,722,325)**	(504,181,605)
	391,836,570	386,596,410
Total assets	**$ 890,602,522**	$ 861,127,013

	June 30	
	2013	**2012**
Liabilities and net position		
Current liabilities:		
Accounts payable	**$ 18,133,015**	$ 11,983,670
Accrued compensation and related expenses	**27,592,580**	17,455,214
Accrued interest expense	**4,091,458**	4,154,098
Other accrued expenses	**18,032,448**	29,528,781
Long-term debt due within one year	**4,932,435**	4,760,135
Total current liabilities	**72,781,936**	67,881,898
Other liabilities:		
Long-term debt, less amounts due within one year	**283,481,359**	287,514,481
Net position:		
Unrestricted	**383,092,859**	368,215,041
Net investment in capital assets	**124,355,582**	115,455,591
Restricted for debt service	**26,890,786**	22,060,002
Total net position	**534,339,227**	505,730,634
Total liabilities and net position	**$ 890,602,522**	$ 861,127,013

See accompanying notes.

West Tennessee Healthcare and Related Affiliates

Statements of Revenues and Expenses and Changes in Net Position

	Year Ended June 30	
	2013	**2012**
Operating revenues		
Net patient service revenues	**$ 569,100,039**	$ 552,972,210
Other revenues	**44,934,457**	40,921,017
Total operating revenues	**614,034,496**	593,893,227
Operating expenses		
Salaries and benefits	**319,701,770**	317,708,787
Supplies and other	**215,015,060**	203,420,790
Depreciation and amortization	**48,016,258**	49,609,821
Total operating expenses	**582,733,088**	570,739,398
Operating income	**31,301,408**	23,153,829
Nonoperating revenues (expenses)		
Investment income	**16,718,004**	3,036,285
Interest expense	**(17,619,826)**	(17,853,610)
Nonoperating expenses, net	**(901,822)**	(14,817,325)
Income before capital contributions	**30,399,586**	8,336,504
Capital contributions		
Contribution to City of Jackson and Madison County	**(1,231,291)**	(2,400,254)
Contribution to City of Jackson: Sportsplex	**(150,000)**	(150,000)
Contribution to West Tennessee Healthcare Foundation	**(409,702)**	(403,205)
Increase in net position	**28,608,593**	5,383,045
Net position at beginning of year	**505,730,634**	500,347,589
Net position at end of year	**$ 534,339,227**	$ 505,730,634

See accompanying notes.

West Tennessee Healthcare and Related Affiliates

Statements of Cash Flows

	Year Ended June 30 2013	2012
Operating activities		
Receipts from third-party payors and patients	**$ 603,115,854**	$ 592,110,086
Payments to suppliers	**(218,568,659)**	(215,338,567)
Payments to employees	**(309,564,404)**	(321,798,704)
Net cash provided by operating activities	**74,982,791**	54,972,815
Noncapital financing activity		
Capital contributions to City of Jackson and Madison County	**(1,790,993)**	(2,953,459)
Net cash used in noncapital financing activity	**(1,790,993)**	(2,953,459)
Investing activities		
Interest, dividends, and realized gain on investments	**5,896,890**	5,156,587
Net change in restricted assets	**(9,772,667)**	(2,648,973)
Net cash (used in) provided by investing activities	**(3,875,777)**	2,507,614
Capital and related financing activities		
Purchases of capital assets	**(53,533,054)**	(33,592,215)
Net disposals and reductions of capital assets	**599,661**	1,278,329
Repayment of long-term debt	**(4,767,565)**	(4,572,692)
Unamortized loss on defeasance	**906,742**	953,849
Interest paid on long-term debt	**(17,569,041)**	(17,843,553)
Net cash used in capital and related financing activities	**(74,363,257)**	(53,776,282)
(Decrease) increase in cash and cash equivalents	**(5,047,236)**	750,689
Cash and cash equivalents at beginning of year	**36,988,257**	36,237,568
Cash and cash equivalents at end of year	**$ 31,941,021**	$ 36,988,257
Reconciliation of operating income to net cash provided by operating activities		
Income from operations	**$ 31,301,408**	$ 23,153,829
Adjustments to reconcile operating income net cash provided by operating activities:		
Depreciation	**47,693,235**	49,219,850
Amortization	**323,023**	389,971
Changes in operating assets and liabilities:		
Accounts receivable	**(10,918,642)**	(1,783,141)
Inventory and prepaid expenses	**1,095,142**	(639,682)
Other assets	**698,247**	(14,952,283)
Accounts payable and accrued expenses	**4,790,378**	(415,729)
Net cash provided by operating activities	**$ 74,982,791**	$ 54,972,815
Supplemental schedule of noncash investing activities		
Change in fair value of investments	**$ 10,821,114**	$ (2,120,302)

See accompanying notes.

1. Significant Accounting Policies

Organization and Basis of Presentation

The accompanying financial statements include West Tennessee Healthcare and its related affiliates (hereinafter collectively referred to as the Company), all of which are under common control of the Jackson-Madison County General Hospital District (the District) and have been presented as blended component units of the Company. We consider Jackson-Madison County General Hospital, Bolivar General Hospital, Camden General Hospital, Gibson General Hospital, Humboldt General Hospital, Milan General Hospital, Pathways Behavioral Health, Medical Center Medical Products, Health Partners, Therapy & Learning Center and the West Tennessee Medical Group blended component units (BCUs) of West Tennessee Healthcare as the governing body is substantively the same as the governing body of West Tennessee Healthcare and has operational responsibility of these component units. The Company presents its financial statements in accordance with generally accepted accounting principles and financial reporting standards. All significant intercompany balances and transactions have been eliminated.

Proprietary Fund Accounting

The Company utilizes the economic resources measurement focus and the proprietary fund method of accounting whereby revenues and expenses are recognized on an accrual basis. Substantially all revenues and expenses are subject to accrual.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform with the classifications used in 2013. These reclassifications had no impact on the Company's financial position or results of operations.

Recent Accounting Pronouncements

In December 2009, the GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The provisions of this Statement related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial

1. Significant Accounting Policies (continued)

valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. The adoption of this statement on July 1, 2011, did not have a significant impact on the Company's results of operations or financial position.

The GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus and amendment of GASB Statements No.14 and No.34*, in November 2010. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012, although earlier application is encouraged. The adoption of this statement on July 1, 2012, did not have a significant impact on the Company's results of operations or financial position.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB

1. Significant Accounting Policies (continued)

pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The adoption of this statement on July 1, 2012, did not have a significant impact on the Company's results of operations or financial position.

The GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in June 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The adoption of this statement on July 1, 2012, did not have a significant impact on the Company's results of operations or financial position.

The GASB recently issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which was approved in June 2012. The standard applies to government employers that offer pension benefits through a pension trust or an equivalent arrangement. It replaces GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures*, for these employers. The standard is intended to improve the usefulness of financial statements in assessing accountability and inter-period equity by requiring recognition of the entire net pension liability as well as explanatory disclosures in the notes to the financial statements and required supplemental information.

Among other requirements, under the standard, government employers will have to record a net pension liability in their financial statements for defined benefit plans that is based on fiduciary plan net position rather than plan funding. This portion of the standard will require the largest

1. Significant Accounting Policies (continued)

amount of time to adopt. The new standard is effective for fiscal years beginning after June 15, 2014, but the GASB is encouraging governments to implement sooner. The Company is working with its actuarial firm to determine the impact that this standard will have on the Company's financial statements.

Cash and Cash Equivalents

The Company considers temporary cash investments with a maturity of three months or less when purchased to be cash and cash equivalents.

Investments

The Company's investments are reported at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* The Company invests in government bonds, short-term money market investments, equity securities and alternative investments that are in accordance with the Company's investment policy.

Investments include the Company's ownership interest in various limited partnerships and investment funds (collectively referred to as Funds) that, in turn, invest the capital of the Funds in other funds. These Funds have no significant liabilities, and the equity of the Funds is based upon the fair value of the financial instruments held. These Funds invest in real estate, hedge funds, and limited partnerships. The fair value of these investments is determined by the underlying asset's manager or independent appraisals (in the case of real estate). Due to inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

1. Significant Accounting Policies (continued)

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year and the current year. Realized and unrealized gains and losses are included in investment income in the accompanying statements of revenues and expenses and changes in net position.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Funded Depreciation

The Company reserves funds for future purchases of capital assets. Investment earnings on funded depreciation funds were $1,270,106 and $1,093,222 for the years ended June 30, 2013 and 2012, respectively, and are included in investment income in the accompanying statements of revenues and expenses and changes in net position.

Bond Issue Costs and Discounts

Bond issue costs and discounts are amortized over the life of the related bonds by the interest method. Such amortization is included in interest expense in the accompanying statements of revenues and expenses and changes in net position.

Capital Assets

Property, plant, and equipment are recorded on the basis of cost. Provisions for depreciation are computed by the straight-line method based on the estimated useful lives of the assets.

Compensated Absences

The Company allows employees to accumulate paid time off to be used for vacation, holiday and sick time. The Company allows employees to be paid for a portion of their vacation and holiday time not taken and accrues its liability for such time. Such liability is classified as accrued compensation and related expenses in the accompanying statements of net position.

1. Significant Accounting Policies (continued)

Charity Care and Community Benefit

As a community provider, the Company's policy is to accept all patients regardless of their ability to pay. As a result, no distinction is made between bad debts and charity care for financial reporting purposes. However, management believes that substantially all of the uncollected amounts are due to patients' inability to pay. Therefore, all amounts which are not collected, other than third-party payor contractual adjustments, are recorded as charity care and excluded from net patient service revenues. The community benefit provided through charity care was $103,852,676 and $101,258,639, based on gross charges, for the years ended June 30, 2013 and 2012, respectively.

EHR Incentive Payments

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid inventive payments are available to providers that adopt, implement or upgrade certified EHR technology. Providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments.

The Company accounts for HITECH incentive payments under a grant accounting model. Income from Medicare and Medicaid incentive payments is recognized ratably as revenue as the Company has demonstrated that it complied with the meaningful use criteria over the applicable compliance period. The Company recognized revenue from Medicare and Medicaid incentive payments after it adopted certified EHR technology. Incentive payments totaling $8,076,946 and $7,418,688 and for the years ended June 30, 2013 and 2012, respectively, are included in other revenues in the accompanying statements of revenues and expenses and changes in net position. Income from incentive payments is subject to retrospective adjustment as the incentive payments are calculated using cost report data that is subject to audit. Additionally, the Company's compliance with the meaningful use criteria is subject to audit by the federal government.

1. Significant Accounting Policies (continued)

Net Patient Service Revenues

Net patient service revenues are reported at the net amounts billed to patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as changes in estimated provisions and final settlements are determined. Changes in estimated provisions and final settlements are included in net patient service revenues. For the fiscal year ended June 30, 2013, changes in estimated settlements resulted in an increase to revenues of approximately $6,000,236 compared to an increase of $3,477,521 for the fiscal year ended June 30, 2012.

The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

- *Medicare.* Inpatient acute care services and skilled nursing services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Company receives additional payments from Medicare based on the provision of services to a disproportionate share of Medicaid eligible and other low income patients. The Center for Medicare and Medicaid Services (CMS) (formerly known as the Health Care Financing Administration) established an outpatient prospective payment system. CMS established groups called ambulatory payment classifications for outpatient procedures. Payments are made based on the group assignment for the service rendered. Additionally, CMS established a prospective payment system for home health services.

- *TennCare.* The Company contracts with managed care organizations to receive reimbursement for providing hospital services to patients covered under the TennCare program. Payment arrangements with these managed care organizations consist primarily of prospectively determined rates per discharge, discounts from established charges or prospectively determined daily rates.

1. Significant Accounting Policies (continued)

- *Other.* The Company has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The bases for payment to the Company under these agreements include prospectively determined rates per discharge, discounts from established charges or prospectively determined daily rates.

Charges at the Company's established billing rates (gross patient service charges) related to patients covered by Medicare, Medicaid, and TennCare programs were 63% and 62% of gross patient service revenues for the fiscal years ended 2013 and 2012, respectively.

Charges exceeding amounts reimbursed and not included in net patient service revenues were as follows:

	Year Ended June 30	
	2013	**2012**
Medicare	**$ 505,208,191**	$ 430,880,302
TennCare	**169,629,719**	89,763,180
Other	**354,808,098**	376,791,432
	$ 1,029,646,008	$ 897,434,914

Laws and regulations governing the Medicare and TennCare/Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined (in relation to certain government programs, primarily Medicare, this is generally referred to as the "cost report" filing and settlement process). Final determination of amounts earned under prospective payment and cost reimbursement activities is subject to review by appropriate governmental authorities or their agents. Management believes that adequate provisions have been made for adjustments that may result from final determination of amounts earned under Medicare and Medicaid programs.

Essential access, critical access, Federal Medical Assistance Percentage and Medicaid Disproportionate Share payments of approximately $7,114,381 and $6,883,094 received from TennCare/Medicaid were included in net patient service revenues during the years ended June 30, 2013 and 2012, respectively.

1. Significant Accounting Policies (continued)

The Company believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and TennCare/Medicaid programs.

Operating Revenues

The Company's primary mission is to provide health care services to the citizens of West Tennessee through its acute care and specialty care facilities. Therefore, operating revenues include those generated from direct patient care and sundry revenues related to the operation of the Company's facilities.

Federal Income Taxes

The Internal Revenue Service has determined that all material affiliates comprising the Company are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The District is also exempt from federal income taxes under Section 115 of the IRC. As qualified tax-exempt organizations, each of the tax-exempt affiliates comprising the Company must operate in conformity with the IRC to maintain its tax-exempt status.

2. Restricted Assets

The Company, as authorized by the Board of Trustees, maintains checking accounts necessary for daily operations, deposits for the contingency fund, and deposits and investments for the funded depreciation funds. The bond funds are maintained in accordance with the bond indenture related to the Series 2008 $318,980,000 Hospital Revenue Refunding and Improvement Bonds (see Note 6). The interest fund and bond sinking fund are maintained for the payment of bond principal and interest. A debt service reserve fund is maintained to make up any deficiencies in the interest fund and bond sinking fund. Certain amounts comprising the interest fund, bond sinking fund and debt service reserve fund are included in the current portion of restricted assets in the accompanying statements of net position based on debt service requirements during the following fiscal year. The Company first applies restricted resources when expenses are incurred for purposes for which both restricted and unrestricted net position are available,

2. Restricted Assets (continued)

The Company's investments and deposits, classified as restricted assets, are categorized to give an indication of the level of risk assumed by the Company as of year-end. The Company's investments are reported at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* The Company invests in government and corporate bonds, equity securities, alternative investments and short-term money market investments that are in accordance with the Company's investment policy.

A summary of restricted assets follows:

	June 30	
	2013	**2012**
Externally restricted by bond indenture agreement – held by bond trustee:		
Cash and short-term investments	**$ 26,890,786**	$ 22,060,002
Internally designated for capital acquisitions:		
Cash and short-term investments	**843,575**	198,980
Corporate and U.S. agency bond funds	**69,008,737**	85,461,132
Real estate mortgage fund	**14,416,401**	14,097,846
Equity securities	**95,007,929**	70,935,763
	179,276,642	170,693,721
Other internally designated funds for operations:		
Cash and short-term investments	**35,121,750**	44,677,201
U.S. government agency obligations	**31,277,787**	32,149,498
Real estate mortgage fund	**6,534,145**	5,303,449
Equity securities	**43,061,762**	26,685,220
	115,995,444	108,815,368
Total restricted assets	**322,162,872**	301,569,091
Amounts required to meet current obligations	**(5,190,102)**	(685,584)
	$ 316,972,770	$ 300,883,507

3. Cash and Investments

At June 30, 2013 and 2012, the Company had cash on hand and deposits as follows:

	June 30	
	2013	**2012**
Cash on hand	**$ 13,872**	$ 13,247
Cash insured (FDIC) or collateralized with securities held by the Company	**2,250,000**	2,250,000
Cash collateralized by securities held by the pledging financial institution's trust department in the Company's name or in the State of Tennessee Collateral Pool	**29,677,149**	34,725,010
Total	**$ 31,941,021**	$ 36,988,257

The types of securities which are permitted investments for Company funds are established by the Company's Investment Policy in accordance with Tennessee Statutes. All funds of the Company may be invested in obligations of or guaranteed by the United States Government. In addition, certain funds of the Company may be invested in obligations of agencies of the U.S. government; obligations of or guaranteed by the State of Tennessee; collateralized certificates of deposit and repurchase agreements' commercial paper; and other asset classes including fixed income, domestic equities, international equities, and alternative investments.

At June 30, 2013 and 2012, the Company had $35,965,326 and $44,876,181, respectively, invested in short-term investments, which include U.S. agencies and a sweep account secured by agency securities held by the Trustee. All investments are carried at fair value.

In accordance with Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, the Company has assessed the Custodial Credit Risk, the Concentration of Credit Risk, Credit Risk, and Interest Rate Risk of its Cash and Investments.

(a) Custodial Credit Risk – The Company's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or are collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name. The deposit risk is that, in the event of the failure of a depository financial institution, the Company will not be able to recover deposits or will not be able to

3. Cash and Investments (continued)

recover collateral securities that are in the possession of an outside party. The Company's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Company, and are held by either the counterparty or the counterparty's trust department or agent but not in the Company's name. The investment risk is that, in the event of the failure of the counterparty to a transaction, the Company will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

At June 30, 2013 and 2012, the Company's bank balances were not exposed to custodial credit risk since the full amount was covered by FDIC insurance or collateralized by securities held by the pledging financial institution's Trust department in the Company's name or by the State of Tennessee Collateral Pool.

As of June 30, 2013 and 2012, the Company's investments were comprised of various short-term investments, trustee funds, corporate and U.S. agency bond funds, real estate mortgage funds, equity securities and alternative investments. Since the investments are registered in the Company's name, they are not exposed to custodial credit risk. In addition, the Company's investment policy requires that specific qualifications be met in order to represent the Company as a custodian.

(b) Concentration of Credit Risk – This is the risk associated with the amount of investments the Company has with any one issuer that exceeds 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The Company's investment policy states that no equity may represent more than 8% of any individual portfolio manager and that no single purchase shall represent more than 5% of the Company's total equity position.

(c) Credit Risk – GASB 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government. This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Company's investment policy provides guidelines for its fund managers and lists specific allowable investments. The policy provides for the utilization of varying styles of managers so that portfolio diversification is maximized and total portfolio efficiency is enhanced.

3. Cash and Investments (continued)

The credit risk profile of the Company's investments as of June 30, 2013, is as follows:

Investment Type	Balance as of June 30, 2013	Rating AAA	AA	A-	AA-	NA
Cash and money market funds	$ 62,856,111	$1,225,919	$ –	$ –	$ –	$ 61,630,192
Corporate and U.S. agency bond funds	100,286,524	–	–	–	84,477,804	15,808,720
Real estate mortgage fund	20,950,546	–	–	–	–	20,950,546
Equity securities	138,069,691	–	–	–	–	138,069,691
Total investments	$ 322,162,872	$1,225,919	$ –	$ –	$ 84,477,804	$ 236,459,149

(d) Interest Rate Risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Company's Investment Policy authorizes a strategic asset allocation that is designed to provide an optimal return over the Company's investment horizon and within the Company's risk tolerance and cash requirements.

The distribution of the Company's investments by maturity as of June 30, 2013, is as follows:

Investment Type	Balance as of June 30, 2013	Remaining Maturity (In Months) 12 Months or Less	13 Months to 24 Months	25 Months to 60 Months	Greater Than 60 Months	N/A
Cash and money market funds	$ 62,856,111	$ 41,556,399	$ –	$ 21,299,712	$ –	$ –
Corporate and U.S. agency bond funds	100,286,524	–	–	100,286,524	–	–
Real estate mortgage fund	20,950,546	–	–	–	–	20,950,546
Equity securities	138,069,691	–	–	–	–	138,069,691
Total investments	322,162,872	41,556,399	–	121,586,236	–	159,020,237
Amounts required to meet current obligations	(5,190,102)	(5,190,102)	–	–	–	–
Total	$ 316,972,770	$ 36,366,297	$ –	$ 121,586,236	$ –	$ 159,020,237

3. Cash and Investments (continued)

For the years ended June 30, 2013 and 2012, investment income is comprised of the following:

	2013	2012
Interest, dividends, and realized gains on investments	**$ 5,896,890**	$ 5,156,587
Change in fair value of investments	**10,821,114**	(2,120,302)
	$ 16,718,004	$ 3,036,285

The calculation of realized gains and losses is independent of a calculation of the net change in fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior years and current year.

4. Disaggregation of Payable Balances

Accounts Payable and Accrued Expenses

Accounts payable at June 30, 2013 and 2012, consisted of the following:

	2013	2012
Due to vendors	**$ 16,912,836**	$ 10,104,951
Due to patients	**772,874**	1,433,780
Other	**447,305**	444,939
Total accounts payable	**$ 18,133,015**	$ 11,983,670

Other accrued expenses at June 30, 2013 and 2012, consisted of the following:

	2013	2012
Accruals for self insurance	**$ 7,276,667**	$ 10,445,233
Other	**10,755,781**	19,083,548
Total other accrued expenses	**$ 18,032,448**	$ 29,528,781

5. Capital Assets

Capital assets activity for the years ended June 30, 2013 and 2012, consisted of the following:

	Balance at July 1, 2012	Additions	Transfers	Reductions	Balance at June 30, 2013
Cost					
Land	$ 31,890,236	**$ 343,527**	**$ 55,473**	**$ (25,991)**	**$ 32,263,245**
Land improvements	14,685,782	**19,500**	**(8,913)**	**(74,794)**	**14,621,575**
Building	285,630,837	**167,807**	**1,682,461**	**(162,353)**	**287,318,752**
Equipment	554,762,648	**21,821,639**	**2,468,490**	**(2,087,797)**	**576,964,980**
Subtotal	886,969,503	**22,352,473**	**4,197,511**	**(2,350,935)**	**911,168,552**
CIP	3,808,513	**31,180,582**	**(4,197,511)**	**(401,241)**	**30,390,343**
Total	890,778,016	**53,533,055**	**–**	**(2,752,176)**	**941,558,895**
Accumulated depreciation	(504,181,605)	**(47,693,237)**	**–**	**2,152,517**	**(549,722,325)**
Net capital assets	$ 386,596,411	**$ 5,839,818**	**$ –**	**$ (599,659)**	**$ 391,836,570**

	Balance at July 1, 2011	Additions	Transfers	Reductions	Balance at June 30, 2012
Cost					
Land	$ 29,685,495	$ 2,193,362	$ 11,379	$ –	$ 31,890,236
Land improvements	14,668,921	–	16,861	–	14,685,782
Building	283,425,658	148,288	2,101,257	(44,367)	285,630,836
Equipment	542,581,624	24,941,872	5,948,069	(18,708,917)	554,762,648
Subtotal	870,361,698	27,283,522	8,077,566	(18,753,284)	886,969,503
CIP	5,860,845	6,308,693	(8,077,566)	(283,459)	3,808,513
Total	876,222,543	33,592,215	–	(19,036,743)	890,778,015
Accumulated depreciation	(472,720,169)	(49,219,850)	–	17,758,414	(504,181,605)
Net capital assets	$ 403,502,374	$ (15,627,635)	$ –	$ (1,278,329)	$ 386,596,410

5. Capital Assets (continued)

Depreciation is computed by applying the straight-line method over the estimated remaining useful lives of buildings and improvements (10 to 40 years) and equipment (4 to 20 years). Assets under capital leases are amortized using the straight-line method over the shorter of the estimated useful life of the assets or life of the lease term, excluding any lease renewal, unless the lease renewals are reasonably assured. Amortization expense related to assets under capital leases is included in depreciation expense. The Company's capitalization threshold is $1,000 and a minimum useful life of 2 years. Depreciation expense totaled $47,693,235 and $49,219,850 during the years ended June 30, 2013 and 2012, respectively.

Construction in progress at June 30, 2013, consists of various projects for additions and renovations to the Company's facilities. The Company has outstanding contracts and other commitments related to the completion of these projects. The Company estimates $21,160,492 in costs to complete these projects.

6. Long-Term Debt and Capital Lease Obligations

Long-term debt consists of the following:

	June 30	
	2013	**2012**
Hospital Revenue Bonds, Series 2008	**$ 298,950,000**	$ 303,630,000
Less unamortized bond discount	**(4,582,701)**	(4,851,886)
	294,367,299	298,778,114
Hospital Revenue Refunding and Improvement Bonds, Series 1995, unamortized loss on bond refunding	**(86,296)**	(185,057)
Hospital Revenue Bonds, Series 1998, unamortized loss on defeasance	**(1,625,484)**	(1,852,730)
Auction Rate Hospital Revenue Bonds, Series 2003, unamortized loss on defeasance	**(1,260,793)**	(1,418,423)
Auction Rate Hospital Revenue Bonds, Series 2006A, unamortized loss on defeasance	**(275,248)**	(291,241)
Auction Rate Hospital Revenue Bonds, Series 2006B, unamortized loss on defeasance	**(2,743,119)**	(2,881,046)
Capital lease obligation	**37,435**	124,999
	288,413,794	292,274,616
Amounts due within one year	**(4,932,435)**	(4,760,135)
	$ 283,481,359	$ 287,514,481

6. Long-Term Debt and Capital Lease Obligations (continued)

In September 1995, the District issued $68,200,000 of Series 1995 Hospital Revenue Refunding and Improvement Bonds. A portion of the proceeds of the Series 1995 Bonds were used to advance refund $39,370,000 of its Series 1986 Bonds. The remaining proceeds of the Series 1995 Bonds were used to fund capital improvements of certain facilities of the District.

In September 1998, the District issued $70,000,000 of Series 1998 Hospital Revenue Bonds. A portion of the proceeds of the Series 1998 Bonds were used to advance refund $8,940,000 and $1,150,000 of Series 1992 and 1986 Bonds, respectively. The remaining proceeds of the Series 1998 Bonds were used to fund capital improvements of certain facilities of the District.

In October of 2003, the District issued $80,000,000 of Series 2003 Auction Rate Hospital Revenue Bonds. The proceeds of these bonds were used to fund capital improvements of certain facilities of the District.

In August of 2006, the District issued $50,100,000 of Series 2006A Auction Rate Hospital Revenue Refunding Bonds. A portion of the proceeds were used to refund $49,700,000 of its Series 1995 Bonds. The remaining proceeds of the Series 2006A Bonds were used to fund capital improvements of certain facilities of the District.

In August of 2006, the District issued $145,700,000 of Series 2006B Variable Rate Demand Hospital Revenue Refunding and Improvement Bonds. A portion of the proceeds were used to advance refund $57,570,000 of its Series 1998 Bonds. The remaining proceeds of the Series 2006B Bonds were used to fund capital improvements of certain facilities of the District.

In August 2008, the District issued $318,980,000 of Series 2008 Hospital Revenue Refunding and Improvement Bonds. With the 2008 fixed rate bond issue, the District has eliminated all auction rate and variable rate debt. A portion of the proceeds were used to refund $78,350,000 of its Series 2003 Auction Rate Hospital Revenue Bonds; $48,725,000 of its Series 2006A Auction Rate Hospital Revenue Bonds; and $143,600,000 of its Series 2006B Variable Demand Rate Hospital Revenue Refunding and Improvement Bonds. A Debt Service Reserve Fund was created under the 2008 indenture. On the date of issuance of the 2008 bonds, $21,299,713 of the proceeds of the 2008 bonds were deposited in the Debt Service Reserve Fund. The remaining proceeds of the Series 2008 Bonds will be used to fund capital improvements of certain facilities of the District.

6. Long-Term Debt and Capital Lease Obligations (continued)

The 2008 Bond Issue also provided for the termination of the District's 2003A, 2006A, and 2006B interest rate swaps. The District made termination payments to the counterparties of $4,073,687, $3,493,889, and $11,344,647, respectively, for the 2003A, 2006A, and 2006B interest rate swaps. Subsequent to such termination payments, the District has no risk associated with any interest rate swaps at June 30, 2013.

The District's revenues are pledged as collateral to the Series 2008 Bond Issue.

The Company paid interest of $17,569,041 and $17,843,553 for the years ended June 30, 2013 and 2012, respectively.

Long-term debt activity (excluding unamortized bond discount and losses on refunding) for the years ended June 30, 2013 and 2012, consisted of the following:

	Balance at June 30, 2011	Additions	Reductions	Balance at June 30, 2012	Additions	Reductions	Balance at June 30, 2013
Bonds payable	$ 308,110,000	$ –	$ 4,480,000	$ 303,630,000	$ –	**$ 4,680,000**	**$ 298,950,000**
Other	217,691	–	92,692	124,999	–	**87,565**	**37,434**
Total long-term debt	$ 308,327,691	$ –	$ 4,572,692	$ 303,754,999	$ –	**$ 4,767,565**	**$ 298,987,434**

Scheduled principal and interest payments, including capital lease obligations and bonds payable, are as follows:

	Principal	Interest	Total
Fiscal Years Ending June 30:			
2014	$ 4,932,435	$ 16,402,263	$ 21,334,698
2015–2019	28,385,000	78,102,544	106,487,544
2020–2024	36,505,000	69,979,569	106,484,569
2025–2029	47,320,000	59,163,226	106,483,226
2030–2034	61,710,000	44,776,760	106,486,760
2035–2039	80,950,000	25,536,376	106,486,376
2040–2041	39,185,000	3,411,188	42,596,188
Unamortized bond discount, net	(4,582,701)	–	(4,582,701)
Unamortized loss on bond refunding, net	(5,990,940)	–	(5,990,940)
Total	$ 288,413,794	$ 297,371,926	$ 585,785,720

7. Leases

The Company leases equipment under various operating leases. Rent expense for all operating leases was approximately $4,561,763 and $4,295,535 for the years ended June 30, 2013 and 2012, respectively. Approximate minimum future rental payments, by year and in the aggregate, under noncancellable operating leases with initial terms of one year or more are as follows at June 30, 2013.

2014	$ 4,544,717
2015-2019	17,428,079
2020-2024	6,628,070
2025-2029	5,579,464
2030-2033	3,905,647
	$ 38,085,977

8. Retirement Plans

Defined Benefit Plan

The Company maintains and administers a noncontributory, defined benefit pension plan (the Plan). The Plan was discontinued for employees hired after June 30, 2010. The West Tennessee Pension Plan is a single-employer defined benefit pension plan. All employees hired after October 1, 2005 and prior to June 30, 2010, are covered on the fifth anniversary of their date of hire after they have completed at least 1,800 hours of employment per year. The Plan provides retirement, termination, disability, and death benefits to plan members and beneficiaries. The operation of the Plan is consistent with the laws of Tennessee and the United States federal government. The Plan issues a publicly available financial report as required by GASB Statement No. 25 that includes a financial statement and required supplementary information for the Plan. That report may be obtained by writing to West Tennessee Healthcare, attention: Human Resources, Manager of Benefits, 620 Skyline Drive, Jackson, Tennessee 38301-3956 or by calling 731-541-5000.

8. Retirement Plans (continued)

Funding Policy

The Company has no legal or plan requirements to fund the Plan. The Company has established a policy of funding the end of the Plan year normal cost plus amortization of the unfunded actuarial accrued liability in level dollar amounts over a 30-year period beginning January 1, 2009, up to fully funding the accrued liability using the Projected Unit Credit Cost Method.

Annual Pension Cost and Net Pension Obligation

Current year contributions made to the Plan equaled 99% of the annual pension cost. Contributions made to the Plan in 2005 equaled the annual pension cost plus an additional one-time discretionary contribution of $6,300,006. Therefore, the net pension obligation had an ending credit balance of $5,224,600 at June 30, 2013, and $5,295,698 at June 30, 2012.

The annual required contribution for the fiscal year ending June 30, 2013, was determined as part of the actuarial valuation for the Plan year beginning January 1, 2012, and was determined using the Projected Unit Credit Cost Method with amortization of the unfunded actuarial liability over 29 years. The actuarial assumptions included for the year ended June 30, 2013 (a) 6.5% post-retirement and 6.5% pre-retirement investment rate of return and (b) a projected salary increase of 3.5% per year. The actuarial assumptions for the year ended June 30, 2012, included (a) 7.0% post-retirement and 7.0% pre-retirement investment rate of return and (b) a projected salary increase of 5.0% per year. Both (a) and (b) include an inflation component of 2.5%. Prior to January 1, 2009, the actuarial value of assets was equal to the market value of assets reported by First Tennessee Bank and CNA Insurance Company. Effective January 1, 2009, a 5-year smoothing method was adopted prospectively. Investment experience different from expected is recognized on a pro rata basis over a 5-year period. The actuarial value of assets at January 1, 2013 reflects three years of smoothing.

The annual pension cost for the fiscal years ending June 30, was calculated as follows:

	2013	**2012**
Annual Required Contribution (ARC)	**$ 13,093,111**	$ 12,555,768
Interest on Beginning of Year Net Pension Credit	**(370,699)**	(375,350)
Adjustment to ARC	**441,797**	441,797
Annual Pension Cost (APC)	**$ 13,164,209**	$ 12,622,215

8. Retirement Plans (continued)

The funded status of the defined benefit plan, including three year trend information, was as follows:

Defined Benefit Plan Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed.	Net Pension Obligation (Credit)
June 30, 2011	$ 11,279,178	99%	$ (5,362,145)
June 30, 2012	12,622,215	99	(5,295,698)
June 30, 2013	13,164,209	99	(5,224,600)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Total Unfunded AAL Funding Deficit) (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2013	$ 184,953,998	$ 249,309,801	$ 64,355,803	74%	$ 152,440,972	42%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is to present multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Company also maintains a defined contribution plan under Section 403(b) of the IRC which provides for voluntary contributions by employees upon employment and matching contributions by the Company after 90 days of service. Substantially all employees of the Company are eligible and may contribute up to 100% of their compensation, subject to certain IRC limitations. The Company had placed a temporary freeze on the match to the 403(b) plan during the fiscal year ended June 30, 2011, and reinstated the match during the fiscal year ended June 30, 2012. During the fiscal year ended June 30, 2012, upon January 1 or July 1 after the completion of 90 days of credited service, for every 1% the employee invested up to 6%, the Company matched 25% of the employee's contribution. Beginning on January 1, 2013, upon January 1 or July 1 after the completion of 90 days of credited service, for every 1% the employee invested up to 6%, the Company matched 50% of the employee's contribution. The Company recognized expense related to the 403(b) Plan of $2,769,964 in 2013 and $1,626,767 in 2012.

8. Retirement Plans (continued)

Supplemental 415(m) Retirement Plan

In 2005, the Company established a supplemental 415(m) retirement plan (the 415 Plan). The 415 Plan will provide monthly benefits equal to the benefit that cannot be paid from the Defined Benefit Plan due to the application of the Code Section 415 limits. The operation of the Plan is consistent with the laws of Tennessee and the United States federal government. Because the 415 Plan is unfunded, these benefit payments are deemed contributions when paid.

The funded status of the 415 Plan, including three year trend information, was as follows:

Supplemental 415(m) Plan Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed.	Net Pension Obligation (Credit)
June 30, 2011	$ 84,159	83%	$ 268,854
June 30, 2012	85,842	82	284,739
June 30, 2013	86,745	81	301,527

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Total Unfunded AAL (Funding Deficit) (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2013	$ –	$ 1,069,038	$ 1,069,038	–%	N/A	–%

Other Post-Employment Benefits

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was issued in June 2004. The requirements apply to any state or local government employer that provides Other Post-Employment Benefits (OPEB). The primary types of OPEB covered by the statement are postretirement health benefits and life insurance benefits. The effective date of this requirement for the Company was the fiscal year beginning July 1, 2007.

8. Retirement Plans (continued)

Any of six actuarial cost methods can be used to determine the OPEB expense. The Company calculated its OPEB expense using the projected unit credit method.

The unfunded actuarial accrued liability must be amortized over a period of not greater than 30 years. The amortization amount may be computed as a level dollar amount or as a level percentage of pay. The Company used a level percentage of pay with a 30-year closed amortization period for purposes of computing the minimum accrual under GASB 45.

The Annual Required Contribution (ARC) calculated in accordance with GASB 45 for the fiscal years ending June 30, 2013 and 2014, is summarized below.

ARC Based on a Level Percent of Pay Amortization for Fiscal Year Ending

	June 30	
	2014	**2013**
Level Percent of Pay Amortization:		
Medical benefits – projected unit credit	**$ 1,051,428**	**$** 908,366

GASB 45 does not require funding of OPEB expense, but any differences between the annual expense and the amount funded in a year are recorded in the Company's financial statements as an increase (or decrease) in the net OPEB obligation. The Company elected to fund its OPEB expense and as of June 30, 2013, the fund had net position in the amount of $3,127,050 which was comprised primarily of ARC payments, as follows:

ARC for OPEB for Fiscal Year Ending:	
2008	$ 547,951
2009	337,343
2010	643,116
2011	687,056
2012	589,985
2013	619,657
Cumulative earnings (loss) on fund	(298,058)
	$ 3,127,050

The balance funded by the Company for the fiscal year ended June 30, 2013, was $619,657, which represents the 2013 ARC of $908,366 less actual benefit payments of $288,709.

9. Commitments and Contingencies

The Company is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Professional Liability

The Company established the contingency fund as a professional liability self-insurance fund in accordance with the Government Tort Liability Act, which restricts the District's exposure to professional liability risks to a pre-determined amount per occurrence.

The District is a "governmental entity" within the meaning of the Tennessee Governmental Tort Liability Act (the Tort Act). As such, its maximum liability for state law tort causes of action is $300,000 for bodily injury or death of any one person in accident, occurrence, or act, and $700,000 for bodily injury or death of all persons in any one accident, occurrence, or act. These limits are subject to change by the Tennessee Legislature. Prior to July 1, 2002, the Tennessee Governmental Tort Liability limited local government tort liability to $130,000 for individual injury or death in any one occurrence and $350,000 for injury or death of all persons in any one occurrence.

Investment earnings on contingency fund assets were $160,724 and $143,037, for the years ended June 30, 2013 and 2012, respectively, and are included in investment income in the accompanying statements of revenues and expenses and changes in net position.

The Company's accrual for self-insured professional liability risks was $3,088,195 and $4,000,000 at June 30, 2013 and 2012, respectively and was based on asserted claims for occurrences prior to that date. The Company does not accrue for unasserted claims or occurrences. In the opinion of management, any liability for such unasserted claims or occurrences would not materially affect the financial position of the Company.

9. Commitments and Contingencies (continued)

Workers' Compensation

Under the Tennessee Workers' Compensation Law, governmental entities such as the District need not accept the workers' compensation system, thereby remaining subject to common law liability for work-related injuries and retaining all common law defenses to such claims. The limits of liability under the Tort Act are applicable to such claims. The District has not accepted the workers' compensation system. The Tennessee Supreme Court has ruled this exemption applicable to the District's affiliate nonprofit corporations as well.

Employee Health

The Company is self-insured with respect to employee health insurance. Estimates of health insurance claims incurred but unpaid as of June 30, 2013 and 2012, are accrued based on estimates that incorporate the Company's past experience, as well as other considerations including the nature of claims and relevant trends. The Company had accrued a liability for incurred but unpaid claims of approximately $7,276,667, and $10,445,233, as of June 30, 2013 and 2012, respectively, which is included in other accrued expenses in the accompanying statements of net position. The expenses related to claims paid during the years ended June 30, 2013 and 2012, are $29,952,116 and $32,557,260, respectively, and are included in salaries and benefits expense. The following represents changes in those aggregated liabilities for estimates of health insurance for the years ended June 30:

	2013	**2012**	**2011**
Claims payable, beginning of year	**$ 10,445,233**	$ 9,630,758	$ 9,050,724
Incurred claims expense	**29,952,116**	32,557,260	30,362,379
Claims payments	**(33,120,682)**	(31,742,785)	(29,782,345)
Claims payable, end of year	**$ 7,276,667**	$ 10,445,233	$ 9,630,758

Litigation

The Company is subject to claims and suits which arise in the ordinary course of business. In the opinion of management, the ultimate resolution of such pending legal proceedings has been adequately recorded in its financial statements, and will not have a material effect on the Company's results of operations or financial position.

10. Obligated Group

As disclosed in Note 6, the Company has revenue bonds outstanding that are payable from the operating revenues of certain affiliates of the District (the Obligated Group). Summary financial information for the Obligated Group is as follows:

	June 30	
	2013	**2012**
Assets		
Current assets	**$ 108,384,348**	$ 119,658,927
Capital assets	**374,618,178**	367,364,503
Other assets	**319,169,758**	306,124,351
	$ 802,172,284	$ 793,147,781
Liabilities and net position		
Current liabilities	**$ 34,163,175**	$ 28,182,267
Long-term debt	**283,481,359**	287,514,481
Net position		
Unrestricted	**$ 350,499,773**	359,167,348
Invested in capital assets, net of related financing	**107,137,191**	96,223,683
Restricted for debt service	**26,890,786**	22,060,002
	484,527,750	477,451,033
	$ 802,172,284	$ 793,147,781

10. Obligated Group (continued)

	Year Ended June 30 2013	2012
Net patient service revenues	**$ 495,078,713**	$ 475,965,470
Other operating revenues	**22,875,158**	24,770,813
Total revenues	**517,953,871**	500,736,283
Operating expenses	**440,065,630**	423,324,204
Depreciation	**44,496,928**	45,788,373
Total expenses	**484,562,558**	469,112,577
Operating income	**33,391,313**	31,623,706
Net nonoperating gains	**14,781,011**	2,719,959
Interest expense	**(17,619,826)**	(17,853,610)
Income before capital contributions	**30,552,498**	16,490,055
Contributions	**(23,475,781)**	(2,208,316)
Increase in net position	**7,076,717**	14,281,739
Net position, beginning of year	**477,451,033**	463,169,294
Net position, end of year	**$ 484,527,750**	**$** 477,451,033
Net cash provided by (used in):		
Operating activities	**$ 96,053,745**	**$** 60,423,547
Noncapital financing activities	**(23,475,781)**	(2,208,316)
Capital and related financing activities	**(72,857,445)**	(60,745,363)
Investing activities	**(3,903,609)**	2,461,950
Net (decrease) increase in cash and cash equivalents	**(4,183,090)**	(68,182)
Cash and cash equivalents, beginning of year	**24,325,546**	24,393,728
Cash and cash equivalents, end of year	**$ 20,142,456**	$ 24,325,546

11. Blended Component Units

We consider Jackson-Madison County General Hospital, Bolivar General Hospital, Camden General Hospital, Gibson General Hospital, Humboldt General Hospital, Milan General Hospital, Pathways Behavioral Health, Medical Center Medical Products, Health Partners, Therapy & Learning Center and the West Tennessee Medical Group blended component units (BCUs) of West Tennessee Healthcare as the governing body is substantively the same as the governing body of West Tennessee Healthcare and has operational responsibility of these component units.

In the statements that follow, we present condensed combining information for the BCUs mentioned above.

Intentionally left blank

Statements of Revenues and Expenses and Changes in Net Position

	Jackson General Hospital	Humboldt General Hospital	Gibson General Hospital	Bolivar General Hospital	Camden General Hospital
Year Ended June 30, 2013					
Revenue					
Patient service revenues	$ 1,364,100,834	$ 18,535,922	$ 16,772,213	$ 21,976,946	$ 18,452,255
Deductions from revenue	881,014,511	12,161,616	12,194,890	16,878,986	11,718,546
Net patient service revenues	483,086,323	6,374,306	4,577,323	5,097,960	6,733,709
Other operating revenues	22,689,344	2,154,793	2,054,334	2,135,875	847,039
Total revenues	505,775,667	8,529,099	6,631,657	7,233,835	7,580,748
Operating expenses					
Salaries	191,427,892	4,162,508	4,122,413	4,075,900	4,017,983
Benefits	49,938,721	822,821	783,454	767,045	798,203
Supplies	111,546,538	772,392	632,448	759,644	771,404
Other	76,872,817	735,283	702,110	774,998	1,068,593
Depreciation and amortization	43,775,055	603,317	287,073	420,493	281,736
Total operating expenses	473,561,023	7,096,321	6,527,498	6,798,080	6,937,919
Operating income	32,214,644	1,432,778	104,159	435,755	642,829
Investment income	14,781,011	290,411	61,511	386,142	124,582
Interest expense	(17,619,826)	–	–	–	–
Income (loss) before capital contributions	29,375,829	1,723,189	165,670	821,897	767,411
Contributions to City and County	(1,231,291)	–	–	–	–
Contribution to City Sportsplex	(150,000)	–	–	–	–
Other	(409,702)	–	–	–	–
Reclass of net position	(21,684,788)	–	–	–	–
Beginning net position	456,530,682	13,033,681	2,024,424	17,235,763	3,904,930
Ending net position	$ 462,430,730	$ 14,756,870	$ 2,190,094	$ 18,057,660	$ 4,672,341

Milan General Hospital	Pathways	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total BCUs
$ 26,639,803	$ 17,614,737	$ 31,415,706	$ 77,073,296	$ –	$ 6,164,335	$ 1,598,746,047
19,357,268	7,163,145	19,423,316	45,619,444	–	4,114,286	1,029,646,008
7,282,535	10,451,592	11,992,390	31,453,852	–	2,050,049	569,100,039
2,089,802	6,727,576	185,814	2,207,354	1,821,731	2,020,795	44,934,457
9,372,337	17,179,168	12,178,204	33,661,206	1,821,731	4,070,844	614,034,496
4,169,231	10,088,611	2,131,982	28,520,137	958,738	3,612,322	257,287,717
849,181	2,809,358	606,286	3,748,716	282,731	1,007,537	62,414,053
1,190,403	1,692,250	7,035,200	2,138,562	23,016	124,536	126,686,393
949,829	1,986,106	506,195	3,726,916	551,383	454,437	88,328,667
616,982	425,930	721,874	800,137	12,131	71,530	48,016,258
7,775,626	17,002,255	11,001,537	38,934,468	1,827,999	5,270,362	582,733,088
1,596,711	176,913	1,176,667	(5,273,262)	(6,268)	(1,199,518)	31,301,408
575,905	488,670	–	–	9,764	8	16,718,004
–	–	–	–	–	–	(17,619,826)
2,172,616	665,583	1,176,667	(5,273,262)	3,496	(1,199,510)	30,399,586
–	–	–	–	–	–	(1,231,291)
–	–	–	–	–	–	(150,000)
–	–	–	–	–	–	(409,702)
–	–	–	15,753,133	–	5,931,655	–
12,982,615	14,227,738	20,920,351	(26,577,113)	2,262,922	(10,835,359)	505,730,634
$ 15,155,231	$ 14,893,321	$ 22,097,018	$ (16,077,242)	$ 2,266,418	$ (6,103,220)	$ 534,339,227

Statements of Revenues and Expenses and Changes in Net Position

	Jackson General Hospital	Humboldt General Hospital	Gibson General Hospital	Bolivar General Hospital	Camden General Hospital
Year Ended June 30, 2012					
Revenue					
Patient service revenues	$ 1,215,155,955	$ 20,883,465	$ 18,733,541	$ 22,466,499	$ 18,485,543
Deductions from revenue	749,068,260	14,276,522	13,077,577	15,528,817	11,599,514
Net patient service revenues	466,087,695	6,606,943	5,655,964	6,937,682	6,886,029
Other operating revenues	24,587,089	694,936	366,545	593,667	358,984
Total revenues	490,674,784	7,301,879	6,022,509	7,531,349	7,245,013
Operating expenses					
Salaries	184,075,423	4,368,302	4,088,678	4,066,471	3,901,536
Benefits	53,143,874	983,274	885,712	893,041	870,016
Supplies	100,732,061	1,008,382	783,380	741,536	748,053
Other	74,981,918	729,954	643,341	734,846	1,053,691
Depreciation and amortization	45,104,196	661,789	316,855	385,399	318,114
Total operating expenses	458,037,472	7,751,701	6,717,966	6,821,293	6,891,410
Operating income (loss)	32,637,312	(449,822)	(695,457)	710,056	353,603
Investment income	2,719,959	40,872	8,980	68,215	21,566
Interest expense	(17,853,610)	–	–	–	–
Income (loss) before capital contributions	17,503,661	(408,950)	(686,477)	778,271	375,169
Contributions to City and County	(2,400,254)	–	–	–	–
Contribution to City Sportsplex	(150,000)	–	–	–	–
Other changes	341,938	–	–	–	–
Beginning net position	441,235,336	13,442,632	2,710,900	16,457,493	3,529,760
Ending net position	$ 456,530,681	$ 13,033,682	$ 2,024,423	$ 17,235,764	$ 3,904,929

Milan General Hospital	Pathways	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total BCUs
$ 26,990,986	$ 18,598,530	$ 31,582,699	$ 71,800,639	$ –	$ 5,709,265	$ 1,450,407,122
19,279,643	7,045,123	21,704,924	42,082,611	–	3,771,921	897,434,912
7,711,343	11,553,407	9,877,775	29,718,028	–	1,937,344	552,972,210
542,212	6,875,570	183,723	3,072,798	1,836,589	1,808,904	40,921,017
8,253,555	18,428,977	10,061,498	32,790,826	1,836,589	3,746,248	593,893,227
4,095,705	9,864,486	2,056,657	29,458,932	936,762	3,603,750	250,516,702
944,894	3,110,817	649,230	4,259,379	313,574	1,138,274	67,192,085
1,315,916	1,847,502	7,059,065	2,245,270	21,928	136,001	116,639,094
904,916	1,950,093	625,977	4,200,497	532,098	424,365	86,781,696
632,398	391,060	684,178	1,023,874	15,101	76,857	49,609,821
7,893,829	17,163,958	11,075,107	41,187,952	1,819,463	5,379,247	570,739,398
359,726	1,265,019	(1,013,609)	(8,397,126)	17,126	(1,632,999)	23,153,829
82,481	81,720	–	–	12,486	6	3,036,285
–	–	–	–	–	–	(17,853,610)
442,207	1,346,739	(1,013,609)	(8,397,126)	29,612	(1,632,993)	8,336,504
–	–	–	–	–	–	(2,400,254)
–	–	–	–	–	–	(150,000)
–	–	–	(745,142)	–	–	(403,204)
12,540,408	12,880,999	21,933,958	(17,414,846)	2,233,308	(9,202,360)	500,347,588
$ 12,982,615	$ 14,227,738	$ 20,920,349	$ (26,557,114)	$ 2,262,920	$ (10,835,353)	$ 505,730,634

Statements of Net Position

	Jackson-Madison County General Hospital	Humboldt General Hospital	Gibson General Hospital	Milan General Hospital	Bolivar General Hospital
As of June 30, 2013					
Current assets:					
Cash and cash equivalents	$ 20,142,456	$ 864,955	$ 799,117	$ 1,082,099	$ 816,491
Accounts receivable, net	76,289,996	923,685	731,422	1,183,903	799,842
Other receivables	12,188,656	1,787,812	1,652,294	1,748,000	1,864,249
Inventories	4,156,526	210,510	123,621	173,940	190,562
Prepaid expenses	7,017,543	–	–	–	–
Restricted assets-current portion	5,190,102	–	–	–	–
Total current assets	124,985,279	3,786,962	3,306,454	4,187,942	3,671,144
Restricted assets	286,653,288	4,611,381	975,691	9,144,684	6,016,888
Other assets	32,516,470	–	–	–	–
Capital assets, net	373,321,268	4,124,767	1,179,989	2,647,709	2,990,173
Total assets	$ 817,476,305	$ 12,523,110	$ 5,462,134	$ 15,980,335	$ 12,678,205
Current liabilities:					
Accounts payable	$ (17,212,357)	$ (64,934)	$ (45,456)	$ (63,824)	$ (175,008)
Long-term debt due within one year	(4,932,435)	–	–	–	–
Accrued compensation and related expenses	(26,612,940)	(166)	(229)	407	(408)
Accrued interest expense	(4,091,458)	–	–	–	–
Other accrued expenses	(18,715,025)	2,298,860	(3,226,355)	(761,687)	5,554,872
Total current liabilities	(71,564,215)	2,233,760	(3,272,040)	(825,104)	5,379,456
Long-term debt, less amounts due within one year	(283,481,359)	–	–	–	–
Total liabilities	(355,045,574)	2,233,760	(3,272,040)	(825,104)	5,379,456
Net position:					
Unrestricted	(329,699,664)	(10,632,103)	(1,010,105)	(12,507,522)	(15,067,488)
Net investment in capital assets	(105,840,281)	(4,124,767)	(1,179,989)	(2,647,709)	(2,990,173)
Restricted for debt service	(26,890,786)	–	–	–	–
Total net position	(462,430,731)	(14,756,870)	(2,190,094)	(15,155,231)	(18,057,661)
Total liabilities and net position	$ (817,476,305)	$ (12,523,110)	$ (5,462,134)	$ (15,980,335)	$ (12,678,205)

Camden General Hospital	Pathways	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Eliminations	Total BCUs
$ 1,108,258	$ 2,322,058	$ –	$ 1,912,407	$ 2,893,180	$ –	$ –	$ 31,941,021
854,486	2,262,757	1,576,059	3,029,827	–	313,310	–	87,965,287
631,835	1,029,790	2,793	104,659	–	446,311	(10,270,957)	11,185,442
174,892	129,340	616,097	201,829	–	–	–	5,977,317
–	–	–	–	–	–	–	7,017,543
–	–	–	–	–	–	–	5,190,102
2,769,471	5,743,945	2,194,949	5,248,722	2,893,180	759,621	(10,270,957)	149,276,712
1,954,589	7,616,249	–	–	–	–	–	316,972,770
–	–	–	–	–	–	–	32,516,470
1,032,691	2,263,848	1,296,911	1,742,511	15,745	1,220,958	–	391,836,570
$ 5,756,751	$ 15,624,042	$ 3,491,860	$ 6,991,233	$ 2,908,925	$ 1,980,579	$ (10,270,957)	$ 890,602,522
$ (60,746)	$ (91,075)	$ (190,719)	$ (218,756)	$ –	$ (10,140)		$ (18,133,015)
–	–	–	–	–	–		(4,932,435)
(20,940)	(30)	–	(958,274)	–	–		(27,592,580)
–	–	–	–	–	–		(4,091,458)
(1,002,725)	(639,614)	18,795,879	(21,891,445)	(642,506)	(8,073,659)	10,270,957	(18,032,448)
(1,084,411)	(730,719)	18,605,160	(23,068,475)	(642,506)	(8,083,799)	10,270,957	(72,781,936)
–	–	–	–	–	–		(283,481,359)
(1,084,411)	(730,719)	18,605,160	(23,068,475)	(642,506)	(8,083,799)	10,270,957	(356,263,295)
(3,639,650)	(12,629,475)	(20,800,109)	17,819,753	(2,250,674)	7,324,178		(383,092,859)
(1,032,690)	(2,263,848)	(1,296,911)	(1,742,511)	(15,745)	(1,220,958)		(124,355,582)
–	–	–	–	–	–		(26,890,786)
(4,672,340)	(14,893,323)	(22,097,020)	16,077,242	(2,266,419)	6,103,220		(534,339,227)
$ (5,756,751)	$ (15,624,042)	$ (3,491,860)	$ (6,991,233)	$ (2,908,925)	$ (1,980,579)	$ 10,270,957	$ (890,602,522)

Statements of Net Position

		Jackson-Madison County General Hospital		Humboldt General Hospital		Gibson General Hospital		Milan General Hospital		Bolivar General Hospital
As of June 30, 2012										
Current assets:										
Cash and cash equivalents	$	24,325,545	$	1,147,561	$	911,740	$	1,370,573	$	1,051,850
Accounts receivable, net		69,754,110		887,361		990,840		1,182,001		865,607
Other receivables		28,321,518		–		4,501		594		247
Inventories		3,799,786		250,598		143,752		168,555		181,309
Prepaid expenses		8,249,049		–		–		–		–
Restricted assets – current portion		685,584		–		–		–		–
Total current assets		135,135,592		2,285,520		2,050,833		2,721,723		2,099,013
Restricted assets		272,473,186		4,321,011		914,253		8,568,860		5,638,016
Other assets		33,651,166		–		–		–		–
Capital assets, net		365,918,467		4,614,128		1,324,399		3,128,837		3,266,749
Total assets	$	807,178,411	$	11,220,659	$	4,289,485	$	14,419,420	$	11,003,778
Current liabilities:										
Accounts payable	$	(11,448,044)	$	(40,764)	$	(93,195)	$	(65,485)	$	(47,308)
Long-term debt due within one year		(4,760,135)		–		–		–		–
Accrued compensation and related expenses		(16,574,159)		31		(76)		(85)		(80)
Accrued interest expense		(4,154,098)		–		–		–		–
Other accrued expenses		(26,196,812)		1,853,755		(2,171,791)		(1,371,235)		6,279,372
Total current liabilities		(63,133,248)		1,813,022		(2,265,062)		(1,436,805)		6,231,984
Long-term debt, less amounts due within one year		(287,514,481)		–		–		–		–
Total liabilities		(350,647,729)		1,813,022		(2,265,062)		(1,436,805)		6,231,984
Net position:										
Unrestricted		(339,693,033)		(8,419,553)		(700,024)		(9,853,778)		(13,969,012)
Net investment in capital assets		(94,777,647)		(4,614,128)		(1,324,399)		(3,128,837)		(3,266,750)
Restricted for debt service		(22,060,002)		–		–		–		–
Total net position		(456,530,682)		(13,033,681)		(2,024,423)		(12,982,615)		(17,235,762)
Total liabilities and net position	$	(807,178,411)	$	(11,220,659)	$	(4,289,485)	$	(14,419,420)	$	(11,003,778)

Camden General Hospital	Pathways	Medical Center Home Health	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Eliminations	Total BCUs
$ 1,245,034	$ 3,191,966	$ –	$ 867,119	$ 2,876,869	$ –	$ –	$ 36,988,257
923,023	1,636,042	1,365,642	2,919,708	–	403,518	–	80,927,852
206,101	532,256	2,402	400,711	41	411,773	(22,575,909)	7,304,235
200,306	137,484	681,535	277,628	–	–	–	5,840,953
–	–	–	–	–	–	–	8,249,049
–	–	–	–	–	–	–	685,584
2,574,464	5,497,748	2,049,579	4,465,166	2,876,910	815,291	(22,575,909)	139,995,930
1,831,512	7,136,669	–	–	–	–	–	300,883,507
–	–	–	–	–	–	–	33,651,166
1,216,974	2,592,549	1,446,036	2,509,319	27,876	551,076	–	386,596,410
$ 5,622,950	$ 15,226,966	$ 3,495,615	$ 6,974,485	$ 2,904,786	$ 1,366,367	$ (22,575,909)	$ 861,127,013
$ (56,675)	$ (91,351)	$ (101,509)	$ (38,263)	$ –	$ (1,076)	$ –	$ (11,983,670)
–	–	–	–	–	–	–	(4,760,135)
(20,780)	(25)	–	(860,040)	–	–	–	(17,455,214)
–	–	–	–	–	–	–	(4,154,098)
(1,640,565)	(907,852)	17,526,245	(32,633,295)	(641,864)	(12,200,648)	22,575,909	(29,528,781)
(1,718,020)	(999,228)	17,424,736	(33,531,598)	(641,864)	(12,201,724)	22,575,909	(67,881,898)
–	–	–	–	–	–	–	(287,514,481)
(1,718,020)	(999,228)	17,424,736	(33,531,598)	(641,864)	(12,201,724)	22,575,909	(355,396,379)
(2,687,956)	(11,635,189)	(19,474,315)	29,066,432	(2,235,046)	11,386,433	–	(368,215,041)
(1,216,974)	(2,592,549)	(1,446,036)	(2,509,319)	(27,876)	(551,076)	–	(115,455,591)
–	–	–	–	–	–	–	(22,060,002)
(3,904,930)	(14,227,738)	(20,920,351)	26,557,113	(2,262,922)	10,835,357	–	(505,730,634)
$ (5,622,950)	$ (15,226,966)	$ (3,495,615)	$ (6,974,485)	$ (2,904,786)	$ (1,366,367)	$ 22,575,909	$ (861,127,013)

Condensed Statement of Cash Flows

	Jackson-Madison County General Hospital	Humboldt General Hospital	Gibson General Hospital	Milan General Hospital	Bolivar General Hospital
For the year ended June 30, 2013					
Net cash provided by (used for) operating activities	$ 93,544,005	$ 121,720	$ 91,478	$ 423,204	$ 287,429
Net cash provided by (used for) noncapital financing activities	(1,790,993)	–	–	–	–
Net cash provided by (used for) investing activities	(1,966,616)	(290,370)	(61,438)	(575,823)	(378,872)
Net cash provided by (used for) capital and related financing activities	(93,969,486)	(113,956)	(142,663)	(135,854)	(143,916)
Net change in cash and cash equivalents	(4,183,090)	(282,606)	(112,623)	(288,473)	(235,359)
Cash and cash equivalents, beginning of period	24,325,546	1,147,561	911,740	1,370,572	1,051,850
Cash and cash equivalents, end of period	20,142,456	864,955	799,117	1,082,099	816,491

Camden General Hospital	Pathways	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total
$ 83,752	$ (293,098)	$ 572,749	$ (14,674,515)	$ 16,311	$ (5,190,244)	$ 74,982,791
–	–	–	–	–	–	(1,790,993)
(123,077)	(479,581)	–	–	–	–	(3,875,777)
(97,451)	(97,229)	(572,749)	15,719,803	–	5,190,244	(74,363,257)
(136,776)	(869,908)	–	1,045,288	16,311	–	(5,047,236)
1,245,034	3,191,966	–	867,119	2,876,869	–	36,988,257
1,108,258	2,322,058	–	1,912,407	2,893,180	–	31,941,021

Condensed Statement of Cash Flows

	Jackson-Madison County General Hospital	Humboldt General Hospital	Gibson General Hospital	Milan General Hospital	Bolivar General Hospital
For the year ended June 30, 2012					
Net cash provided by (used for) operating activities	$ 59,482,814	$ 8,640	$ (69,641)	$ 590,115	$ 333,547
Net cash provided by (used for) noncapital financing activities	(2,953,459)	–	–	–	–
Net cash provided by (used for) investing activities	2,778,277	(41,166)	(8,710)	(81,635)	(53,713)
Net cash provided by (used for) capital and related financing activities	(59,375,816)	(61,306)	(75,319)	(315,144)	(421,083)
Net change in cash and cash equivalents	(68,184)	(93,832)	(153,670)	193,336	(141,249)
Cash and cash equivalents, beginning of period	24,393,728	1,241,393	1,065,410	1,177,237	1,193,099
Cash and cash equivalents, end of period	24,325,545	1,147,561	911,740	1,370,573	1,051,850

Camden General Hospital	Pathways	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total
$ 534,667	$ 37,650	$ 624,409	$ (6,634,266)	$ 59,200	$ 5,680	$ 54,972,815
–	–	–	–	–	–	(2,953,459)
(17,449)	(67,990)	–	–	–	–	2,507,614
(306,186)	(85,377)	(624,409)	7,495,034	(996)	(5,680)	(53,776,282)
211,032	(115,717)	–	860,768	58,204	–	750,688
1,034,002	3,307,683	–	6,351	2,818,665	–	36,237,568
1,245,034	3,191,966	–	867,119	2,876,869	–	36,988,257

Required Supplemental Information

West Tennessee Healthcare and Related Affiliates

Defined Benefit Retirement Plan
Schedule of Employer Contributions (Unaudited)

Year Ended December 31	Fiscal Year Ending	(a) Annual Required Contribution	Actual Contribution	Percentage Contributed
2007	June 30, 2008	11,254,451	11,182,451	99 %
2008	June 30, 2009	10,937,013	10,937,016	100
2009	June 30, 2010	11,068,225	11,068,225	100
2010	June 30, 2011	11,217,077	11,217,077	100
2011	June 30, 2012	12,555,768	12,555,768	100
2012	June 30, 2013	13,093,111	13,093,111	100

[a] The actuarially determined contribution requirements for the Company's fiscal year ended June 30, 2013, are based on actuarial valuations as of January 1, 2012.

West Tennessee Healthcare and Related Affiliates

Defined Benefit Retirement Plan
Schedule of Funding Progress (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Total Unfunded AAL (Funding Deficit) (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as % of Covered Payroll
January 1, 2011	$ 178,927,625	$ 228,607,365	$ 49,679,740	78 %	$ 158,948,315	31 %
January 1, 2012	179,550,974	239,688,164	60,137,190	75	156,334,613	39
January 1, 2013	184,953,998	249,309,801	64,355,803	74	152,440,972	42

West Tennessee Healthcare and Related Affiliates

Postemployment Benefits Other Than Pensions Schedule of Funding Progress (Unaudited)

Supplemental 415(m) Plan – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Total Unfunded AAL (Funding Deficit) (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as % of Covered Payroll
July 1, 2011	$ –	$ 916,816	$ 916,816	– %	NA	– %
July 1, 2012	–	901,427	901,427	–	NA	–
July 1, 2013	–	1,069,038	1,069,038	–	NA	–

Supplementary Information

West Tennessee Healthcare and Related Affiliates

Deductions From Gross Patient Service Revenues

Year Ended June 30, 2013

	Jackson General Hospital	Humboldt General Hospital	Gibson General Hospital	Bolivar General Hospital	Camden General Hospital	Milan General Hospital
Medicare	$ 447,985,887	$ 3,851,039	$ 5,190,883	$ 5,284,353	$ 4,222,896	$ 8,364,526
Tenncare	130,437,164	3,718,430	2,973,693	4,857,416	2,719,111	4,335,397
Other revenue deductions	302,591,461	4,592,147	4,030,313	6,737,217	4,776,539	6,657,345
	$ 881,014,512	$ 12,161,616	$ 12,194,889	$ 16,878,986	$ 11,718,546	$ 19,357,268

West Tennessee Healthcare and Related Affiliates

Deductions From Gross Patient Service Revenues (continued)

	Pathways	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total
Medicare	$ 924,017	$ 5,593,335	$ 23,791,255	$ –	$ –	$ 505,208,191
Tenncare	2,971,171	6,436,374	8,692,747	–	2,488,216	169,629,719
Other revenue deductions	3,267,957	7,393,606	13,135,441	–	1,626,072	354,808,098
	$ 7,163,145	$ 19,423,315	$ 45,619,443	$ –	$ 4,114,288	$ 1,029,646,008

West Tennessee Healthcare and Related Affiliates

Schedule of Expenditures of Federal Awards and State Financial Assistance

For the Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor	CFDA #	Contract Number	Expenditures
Federal Awards			
US Department of Education			
Tennessee Dept of Education			
Special Education – Grants for Infants and Families	84.181A	DG13-C000003	$ 64,778
Total US Department of Education			64,778
US Department of Health and Human Services			
Tennessee Department of Human Services			
Pass-through from Signal Centers, Inc.			
Child Care and Development Block Grant	93.575	N/A	378,567
Block Grant for Community Mental Health Services	93.958	GG1339004	116,517
Affordable Care Act (ACA) Maternal, Infant and Early Childhood Home Visiting Program	93.505	N/A	331,788
Total Tennessee Department of Human Services			826,872
Tennessee Department of Mental Health Substance Abuse Services			
Substance Abuse and Mental Health Services			
Projects of Regional and National Significance	93.243	35336	12,358
Block Grant for Prevention and Treatment of Substance Abuse	93.959	GG1338790	600,713
	93.959	GG1339295	173,728
	93.959	GG1339043	80,000
	93.959	GG1338814	359,640
			1,214,081
Substance Abuse and Mental Health Services			
Projects for Assistance in Transition from Homelessness	93.150	GG1339660	58,206
Total Tennessee Department of Mental Health Substance Abuse Services			1,284,645
Tennessee Department of Health			
Maternal and Child Health Services Block Grant	93.994	GG1333011	282,723
Small Rural Hospital Improvement Grant Program	93.301	GG1238946	42,500
Centers for Disease Control and Prevention: Investigations and Technical Assistance	93.283	GG1339026	33,935
National Bioterrorism Hospital Preparedness Program	93.889	GG1339675	226,845
	93.889	GE1335376	20,000
	93.889	GE1335353	20,000
	93.889	GE1335374	20,000
	93.889	GE1335354	20,000
	93.889	GE1335372	20,000
			326,845
Total Tennessee Department of Health			686,003
Total US Department of Health and Human Services			2,797,520
Total Federal Awards			2,862,298

West Tennessee Healthcare and Related Affiliates

Schedule of Expenditures of Federal Awards and State Financial Assistance (continued)

Federal Grantor/Pass-Through Grantor	CFDA #	Contract Number	Expenditures
State Financial Assistance			
Tennessee Department of Education			
Special Education Grants for Infants and			
Families With Disabilities	N/A	DG13-C000003	$ 500,000
Total Tennessee Department of Education			500,000
Tennessee Department of Mental Health			
Division of Alcohol and Drug Abuse Services			
Block Grant for Prevention and Treatment			
	N/A	GG1338773	155,043
	N/A	GG1339043	49,875
	N/A	GG1338910	199,900
	N/A	GG1339005	194,203
	N/A	GG1339664	1,485,370
	N/A	GG1334383	42,250
	N/A	GG1339661	309,131
	N/A	GG1339663	32,450
	N/A	GG1339667	33,813
	N/A	GG1339658	50,099
	N/A	32966	91,615
	N/A	GG1339453	1,075,620
	N/A	GG1339660	30,583
	N/A	GG1339665	32,937
	N/A	GG1338127	188,800
Total Tennessee Department of Mental Health			3,971,689
Tennessee Department of Health			
Block Grant for Maternal and Child Health Services	N/A	GG1333011	11,934
	N/A	GG1338029	49,840
Total Tennessee Department of Health			61,774
Total State Awards			4,533,463
Total Federal and State Awards			$ 7,395,761

The accompany notes are an integral part of this schedule

West Tennessee Healthcare and Related Affiliates

Notes to Schedule of Expenditures of Federal Awards
and State Financial Assistance

June 30, 2013

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal grant activity of West Tennessee Healthcare and Related Affiliates and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Contingencies

The Company's federal programs are subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures and affect the Company's continued participation in specific programs. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the Company expects such amounts, if any, to be immaterial.

Other Reports

Building a better
working world

Ernst & Young LLP
One Nashville Place
Suite 1400
150 Fourth Avenue North
Nashville, TN 37219

Tel: +1 615 252 2000
Fax: +1 615 242 9128
ey.com

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Bobby Arnold, Chief Executive Officer
Jeff Blankenship, Chief Financial Officer
West Tennessee Healthcare and Related Affiliates

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of West Tennessee Healthcare and Related Affiliates (the Company), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

October 30, 2013

Ernst & Young LLP
One Nashville Place
Suite 1400
150 Fourth Avenue North
Nashville, TN 37219

Tel: +1 615 252 2000
Fax: +1 615 242 9128
ey.com

Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

The Board of Trustees
Bobby Arnold, Chief Executive Officer
Jeff Blankenship, Chief Financial Officer
West Tennessee Healthcare and Related Affiliates

Report on Compliance for Each Major Federal Program

We have audited West Tennessee Healthcare and Related Affiliates' (the Company)'s compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Company's major federal programs for the year ended June 30, 2013. The Company's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Company's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Company's compliance.

Opinion on Each Major Federal Program

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matter

This report is replacing a previously issued report dated October 30, 2013 in order to reference to a revised schedule of findings and questioned costs which more clearly indicates that CFDA Nos. 93.505 and 93.575 were audited as major programs.

Report on Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Ernst & Young LLP

May 12, 2014

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2013

Part I—Summary of Auditor's Results

Financial Statements Section

Type of auditor's report issued (unmodified, qualified, adverse or disclaimer):	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	____ **Yes** __X__ **No**
Significant deficiency(ies) identified?	____ **Yes** __X__ **None reported**
Noncompliance material to financial statements noted?	____ **Yes** __X__ **No**

Federal Awards Section

Internal control over major programs:	
Material weakness(es) identified?	____ **Yes** __X__ **No**
Significant deficiency(ies) identified?	____ **Yes** __X__ **None reported**
Type of auditor's report issued on compliance for major programs (unmodified, qualified, adverse or disclaimer):	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	____ **Yes** __X__ **No**

West Tennessee Healthcare and Related Affiliates

Schedule of Findings and Questioned Costs (continued)

For the Year Ended June 30, 2013

Part I—Summary of Auditor's Results (continued)

Identification of major programs:

CFDA number(s)	Name of federal program or cluster
93.505	US Department of Health and Human Services- Affordable Care Act (ACA) Material Infant and Early Childhood Home Visiting Program
93.575	US Department of Health and Human Services- Child Care and Development Block Grant
93.889	US Department of Health and Human Services- National Bioterrorism Hospital Preparedness Program

Dollar threshold used to distinguish between Type A and Type B programs: $ 300,000

Auditee qualified as low-risk auditee? X **Yes** ____ **No**

Part II—Financial Statement Findings Section

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

No findings required to be reported.

Part III—Federal Award Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by Circular A-133 section .510(a) (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

No findings required to be reported.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ey.com